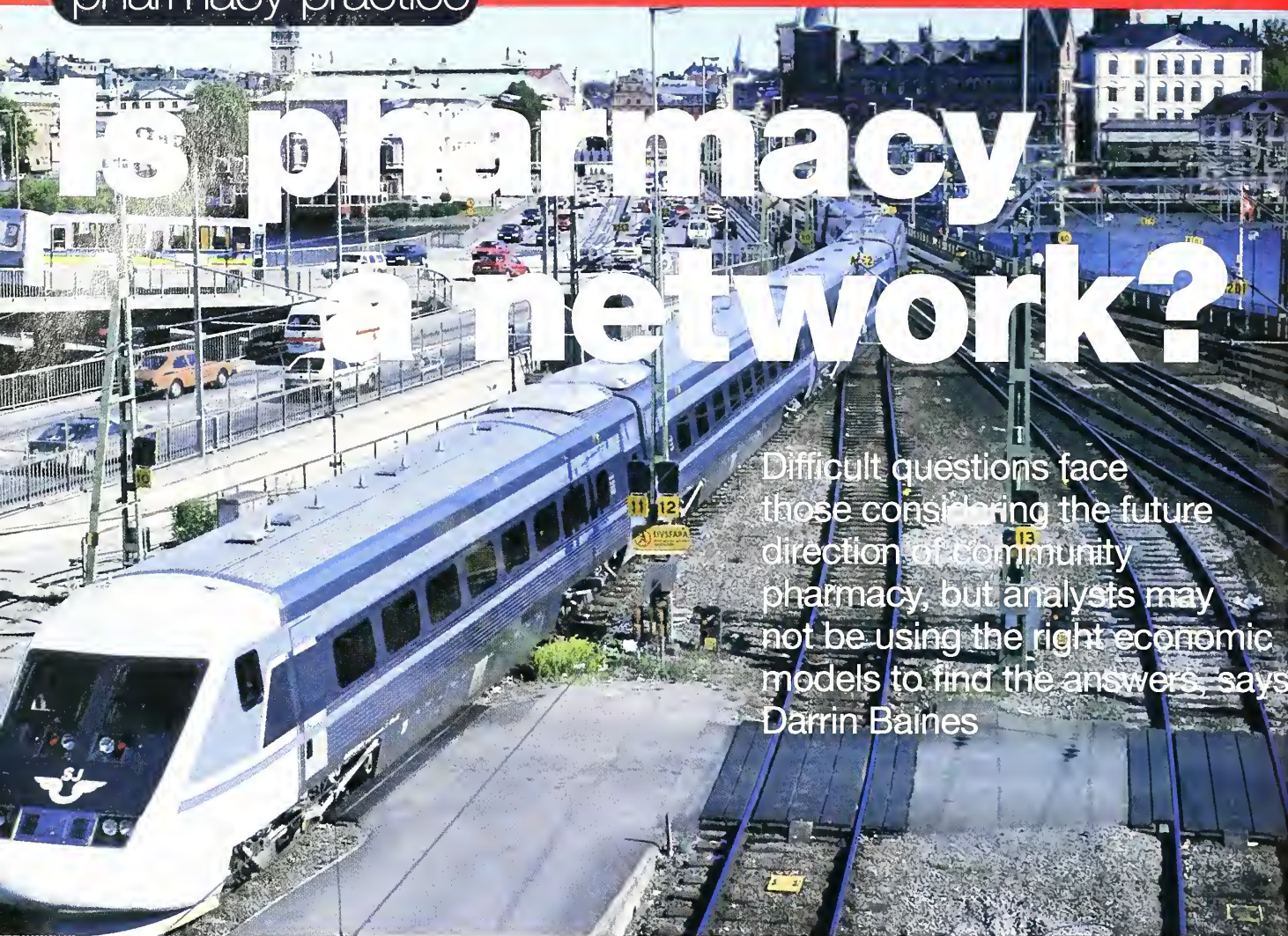




Is pharmacy a network?

Difficult questions face those considering the future direction of community pharmacy, but analysts may not be using the right economic models to find the answers, says Darrin Baines

Although most of us are happy to answer routine questions such as what's your name? or where do you work? we tend to avoid difficult questions which may lead to conflict.

For instance, sensible people do their utmost to dodge the following troublemakers: Who do you vote for? What religion are you? Are you a Tottenham fan?

Questions about politics, religion and football are not, however, the most threatening issues we can face. On the contrary, buried in our unconscious are questions so taboo we're often afraid to let them see the light of day.

Despite our efforts to remain in denial, however, there is a time in most of our lives when we're forced to address the underlying problems we'd rather forget.

Therefore, be warned – however much you try to fight your biggest anxieties, they're uncontrollable and one day they'll raise their ugly heads.

In recent years, the pharmacy profession has begun to ask an increasing number of questions about itself. At the simplest level, enquiring minds have examined a range of unthreatening issues such as: should we be called medicines managers? Should we work outside of our pharmacies? How much should we be paid?

At a deeper level, more controversial issues have been raised. Should the Royal Pharmaceutical Society be reorganised? Should we fight the Government over the dispensing fee cut? Should the profession continue on its current path of reforms?

Although these rouse strong feelings, there's

one question so fundamental, so divisive, that few pharmacists are brave enough to discuss it openly with their peers.

For those of you foolhardy enough to have read this far, the nightmare question is: should local pharmacies work together in a single network rather than as the unplanned, uncoordinated mixture of independents and chains operating today?

Despite efforts by pharmacy organisations and independent contractors to ignore this issue in the hope that it will go away, soon the increasing powers given to primary care trusts (PCTs) will make the question of the appropriate design of local pharmacy networks an agenda item few will be able to suppress.

From an economist's perspective, pharmacy negotiators and government analysts often apply the wrong economic models to the problems that they wish to analyse.

Economies offers many competing theories that endeavour to explain the operation of the world around us. Most people who study the subject tend to learn neo-classical economics, which views the economy as a series of markets in which rational buyers and sellers exchange goods and services at agreed prices.

Recently, this simple model has been challenged by economists who believe that an increasing number of the commodities we buy are "network products" produced in "network industries".

According to leading thinkers, telephones, e-mail, the internet, computer hardware, computer software, and video players, among thousands of other examples, are all network

“Network products are usually complementary”

products, while banking, airlines, legal services, on the other hand, are network industries.

To distinguish between the markets for normal goods and services (such as grain, baked beans or government bonds) and network products, an economist, Oz Shy, reported that things we buy in network markets have four main characteristics.

First, network products are usually complementary, compatible or based upon common standards. For example, compact disks are complementary with CD players, which requires them to be compatible and based upon common standards.

Second, networks have "externalities" in the sense that the use of a network product by one person affects the use of that product by another. For instance, we wouldn't subscribe to a telephone network unless we could access other customers.

Third, joining a network often involves investment in hardware and software and time spent learning how it works. Consequently, once we regularly use a particular network product – such as Windows software – we

become "locked in", with significant "switching costs" involved in changing systems.

Fourth, most networks are expensive to establish, but relatively cheap to run. As a result, they usually offer significant economies of scale in production terms, as network products become much cheaper to produce per item when more and more people use them.

At present, some commentators argue that community pharmacy is a network. However, to be a "network" in the sense defined by economists, pharmacies have to be connected and standardised, with some form of lock-in and economy of scale.

On the first count, most pharmacies in this country are not directly connected with each other, even within the largest retail chains. In relation to the second characteristic, it could be argued that all pharmacies are standardised, as scripts can be cashed in any outlet and the PPA reimburses them all in the same way.

However, with the introduction of specialist medicines management projects and local pharmaceutical services (LPS), in the future there is the risk that no two pharmacies will operate in the same way.

Next, we could say that pharmacies have a high degree of lock-in by consumers because they have invested heavily in learning how to use their retail-based, community outlets. However, if we ignore the PPA reimbursement system, it is not currently necessary for pharmacies themselves to become locked into

"... it is not automatically clear what these networks would do and whether such systems would be desirable"

any particular system (for example, a national patient record system) in order to provide services for the NHS.

Finally, the question of whether economies of scale exist is a moot one, as the NHS doesn't benefit if more prescriptions are dispensed (unless the dispensing fee is continually cut!) but some chains can cut their costs per item dispensed as their volumes increase.

In sum, community pharmacy could develop into a series of local networks, but it is not automatically clear what these networks would do and whether such systems would be desirable for patients, pharmacists or the NHS.

Network industries are not like normal industries. During the 1970s, they used to be called "natural monopolies" and economists suggested that a sole company should run them. As a result, governments used to transform network industries like railways, electricity distribution and telecommunications into big state monopolies.

During the 1980s, bad experiences of the inefficiency of large, nationalised industries led to calls for privatisation. Consequently, state networks were privatised, and new

companies were launched on the Stock Exchange.

During the 1990s, economic thinking on network industries began to change. On the one hand, the invention of the internet demonstrated that network-based companies could not operate successfully unless they captured enough customers, which many could only do by offering their services free.

On the other, problems with the railways, rising utility bills and falling profits amongst the listed telecom companies suggested that privatisation was not the answer to the problems faced in these industries. Consequently, the world became a very complicated place, and most network economists got themselves into a serious muddle.

In response to the failure of experience to support their grand theories, leading network gurus became defensive and, currently, the wise among them only advise governments of the following five things:

- don't try and create your own networks as we don't know the recipe for success
- standardisation should not be imposed but should evolve (or suddenly introduce) itself

Continued on page 38 ►

We've thrown our doors  to health centre pharmacies.

The Numark Health Centre Scheme

For the first time, the benefits of a Numark shareholder package are available in a format specifically tailored to the needs of health centre pharmacies. Enabling you to maximise your business while continuing to provide a professional healthcare service to the local community.

As well as the preferential deals you'll enjoy as part of a major buying group, you'll also benefit from:

- The ability to access a range of NHS programmes, including strong generic and PI schemes.
- A range of brand equalisation deals with leading ethical companies.
- A comprehensive Own Brand range, featuring over 40 OTC medicines.
- Promotional programmes for P and GSL medicines.
- Diagnostic testing.
- Modular in-store design reflecting the Numark brand, the 3rd most recognised pharmacy brand in many parts of the UK.

NUMARK PHARMACISTS
TOGETHER WE'RE STRONGER

For more details or to arrange for a representative to visit, call Amanda or Lis now on 01827 841200.